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Labor reforms in SEE countries and recovering from the crisis

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Abstract

Since 2009, South Eastern European states are confronted with the most dramatic recession throughout Europe. As the 2008 global financial crisis turned to sovereign debt crisis in the EU, the vulnerable economies of the SEE periphery became recipients of IMF loans (granted to a total of sixteen European countries) to tackle the impact of the downturn. In the Balkan region, Greece – a member of the Eurozone - has been receiving financial support from the IMF/EC/ECB troika since May 2010; Serbia and Romania have also borrowed from the IMF; while Bulgaria, also as vulnerable but poorer than Romania, postponed such a deal due to its smaller budget deficit. The loans - either by the IMF or in collaboration with European institutions - were granted under conditional terms of austerity and structural adjustment policies, which imposed public expenditures cuts, anti-protectionism reforms, more labor market flexibilization and national assets' privatization. Those conditional policies of restructuring towards liberalization 'promised' more FDI-favorable conditions, higher employability and thus, growth. However, the suppression of welfare and social security expenditures, the reduction of public and private sector wages, and the promoted labor market reforms have so far deepened recession, accentuated unemployment and decreased social and living standards in all loan-recipient countries. The anticipated recovery from the crisis appears to be uneven and underlines the fragility of the EU. In this context, there is growing concern for the effectiveness of the implemented structural reforms, especially in the vulnerable SEE periphery of Europe. We focus on the Balkan EU-member states of Greece, Romania and Bulgaria, to explore the effect of the memoranda-imposed labor market re/deregulation on their economies. We find that despite the different characteristics of the crisis in these countries, high unemployment is persisting, employment precariousness and risk of in-work poverty is increasing, and their capacity for economic recovery is deteriorating.

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1. Introduction

In 2009, South Eastern European (SEE) economies were confronted with the most dramatic recession throughout the EU. Most SEE countries became recipients of IMF loans (granted to a total of sixteen European countries) to tackle the effects of the global financial crisis. The bailout packages were granted under conditional terms of austerity and structural adjustment policies, imposed uniformly to all recipient countries. The flexibilization of the labor market has been the field of major reforms which led to massive layoffs and abolishment of labor rights, in a context of poor social protection and welfare system. It is not therefore surprising that the adopted policies of restructuring towards greater liberalization has led to a vicious circle of recession, unemployment, poverty and migration – instead of more FDI inflows, higher competitiveness and growth. In fact, although in the second quarter of 2009 real GDP showed a slight increase in most 'core' European countries, the SEE economies are still confronted with the crisis. The anticipated investment- and export-led recovery appears to be uneven across the EU and this underlines the 'peripherality' of the SEE region – which according to many, forms the European 'super-periphery' (Sokol, 2001; Bartlett and Prica, 2013; Besnik, 2014).

This paper focuses on specific EU-member Balkan countries, namely: Greece, a Eurozone member since 2001; and the more recent EU-members of Romania and Bulgaria. Greece and Romania (among others) contracted IMF loans between 2008 and 2011. Bulgaria, on the other hand, has borrowed from the Fund constantly since the early 1990s; and although its last lending agreement ended in 2007, it is considered as a pilot-case of a joint IMF-ILO initiative on job-focused growth (following the 2010 Oslo conference). Despite the diverse historical and political paths of these Balkan countries and the different nature of the crisis they are going through today, we acknowledge many common elements between them. They all have historically been ranked at the lower places in Europe's scale of wealth, despite their relatively high growth rates in the last decades. They also have been hit extremely hard by the eurozone crisis, with record falls in GDP and rise in unemployment compared to the EU average. Moreover, they have been subject to drastic austerity policies and restructuring measures.

In all three loan-recipient countries, the IMF demands have particularly targeted harsh labor market reforms – either in response to the ongoing crisis, or even during the years leading up to the crisis. Moreover, the IMF promoted and nationally adopted measures have led their economies to contract. The imposed cuts of expenditures on welfare, pensions, private and public sector wages, along with labor regulations reform, have attacked any form of social protection, deepened poverty and unemployment in all loan-recipient countries, and downgraded their capacity to resume growth. On this ground, the research question of the papers is: what is the impact of austerity-induced reforms on recession national labor markets? Have labor flexibilization/liberalization reforms boosted employment and socially inclusive growth? Or, have they rather increased flexibility over security, resulting to high employment precariousness, increased job and income losses, and leading the economy to a recession 'lock-in'?

2. Theoretical considerations

In mainstream theory, the concept of *labor flexibility* addresses labor market malfunctions and rigidities caused by state-protectionism and 'hard-regulation' of typical/permanent employment (Keller and Seifert, 2005). For critical theorists, the flexibilization of labor is a highly political process responding to changing imperatives of accumulation and emerging crisis-prone macroeconomic conditions (Peck, 1996; Clasen and Clegg, 2006; Hevenstone, 2008; Dunford, 2012). In fact, industrial accumulation has historically relied upon various types of flexible labor relations; flexible/atypical employment is a notion dated back to the 1950s. The transition to post-fordist regimes in the 1980s triggered labor market reregulation towards higher flexibility reflected in: atypical employment arrangements, wage-setting decentralization, and social corporatism erosion (Becker and Jäger, 2011). Since the 1990s, in the process of globalization and new markets integration, cheaper labor has been pursued by the

EU as a strategy for higher competitiveness. Thus, in the mid-1990s, the European Commission urged EU member-states to adopt *flexicurity*: an employment strategy which allegedly combines *flexibility* of work and labor relations with *security* in and outside the labor market. This policy had positive results in European core economies (Netherlands, Denmark, Germany), where the resulting social inequality was addressed by strong welfare states, which absorbed the consequences of atypical or precarious employment (Esping-Andersen, 1990; Wood, 2001; Clasen and Clegg, 2006; Barbieri, 2009; OECD, 2007 & 2012).

It is therefore essential to stress that labor market flexibility has different patterns and outcomes in different socio-economic and institutional settings. Both *typical* and *atypical* employment forms are closely related to social protection regimes (Barbier, 2011). Place-bound specificities and inequalities (production structures, authority intervention, employment agency etc.) define the outcome of changes in local production systems and form different patterns of labor flexibility (Herod, 2009; Heyes, 2011; Gialis and Tsampra, 2015). In specific, labor flexibilization in EU core economies is a common response to macroeconomic shocks, applied through the allocation of higher shares of unskilled workers to low-wage high-insecurity jobs (Andersen, 2011). However, in EU peripheral economies, labor flexibilization reforms since the late-1980s have increased precarious employment (mainly for the young) irrespectively of skills (Barbieri, 2009). Flexible/atypical employment in core EU regions has (commonly) served as an intermediate step to permanent employment; while in peripheral EU regions, it has rather served temporary demand (Barbieri and Scherer, 2009; Peters, 2008; Gialis, 2011).

The core-periphery divide in Europe has been formed by historical circumstances that define diverse path-dependent growth patterns. But the divide has deepened during the ongoing crisis and rising inequality has put in question the institutional configuration of the Eurozone and EU integration policy. Greece, along with other vulnerable Eurozone economies, suffered a damaging blow by the crisis. The 2008/09 crisis has triggered more labor market reforms towards higher employment liberalization. Such reforms are part and parcel of the austerity policy promoted at the national level by supra-national institutional forces (IMF, ECB, EC) in countries of high sovereign debt. The effect has been even more damaging for Greece's Balkan neighbors outside the Eurozone (Bartlett and Prica, 2013). In all recession countries (particularly in the SEE region) the weakening of regulations has deprived the labor market of protection, thereby is hampering overall job recovery prospects. This paper explores the impact of austerity-induced reforms on the labor market of Greece, Romania and Bulgaria in the context of the crisis.

3. The 'peripheral' facets of labor market reforms in crisis-hit Europe

In 2008-2012, according to the World of Work Report (ILO, 2012), 76% of the labor reforms concern the 'flexibilization' of employment protection regulations for permanent employees. In a total of 131 countries, 40 have altered their employment protection regulations for permanent employees by modifying those concerning severance payments and notice periods; and 15 countries - particularly, in Central and SE Europe - have reduced the requirements for collective dismissals. In specific, the measures passed as part of the reform packages agreed under the financial assistance programs in SEE countries, concern: the 'decentralization' of collective bargaining (in Romania, Greece, Spain and Italy); the cut-down on the extension of expired and not renewed employment contracts (in Spain and Greece); the cut on minimum wage (in Greece, etc.)

These measures were adopted on the assumption that the 'liberalization' of labor relations would better adjust wages to productivity at the national level; and that unemployment would be absorbed. However, a review of more than 100 country-studies (ILO 2012) reveals that structural reforms had diverse impacts in different contexts – i.e. many have reduced job stability and exacerbated inequalities, while they failed to boost employment. The crisis has exacerbated disparities between European 'core' and 'peripheral' economies and their respective labor markets. Certain categories of typical and atypical employees, of high or low skills, in a vast range of sectors (i.e. temporary, low-skilled in manufacturing, highly-skilled in financial services, self-employed in commerce, etc.) have been severely hit by the crisis, with higher losses in the SEE countries (Gialis and Tsampra, 2015).

As illustrated (Figures 1 and 2), EU27 member-countries are clustered in three distinct groups defined by their capacity for employment recovery over the period 2008-2012 (Eurostat LFS; IILS, 2013). Employment rates significantly decreased in 2010 and kept falling even more in 2012 in Greece, Spain, Portugal, Cyprus, etc. In Italy, Bulgaria, and Romania (among others) employment increase in 2010-2012 was insufficient to resume pre-crisis levels. At the same time, in Germany, Austria, Hungary, Luxemburg, and Malta employment rates exceeded pre-crisis levels. Moreover, in terms of youth unemployment rates in the period 2008-2013, EU27 member-countries are clustered in four distinct groups according the level of increase (Eurostat LFS. Greece, Spain, Hungary, Italy, Cyprus, Portugal, and Bulgaria form the group of very high youth unemployment increase on 2008. On the other hand, Germany, Austria, Netherlands, Denmark, Finland and Sweden among others, form the group of low increase of youth unemployment – arguably as a successful paradigm of *flexicurity* policy.

Figure 1. Employment (15-64y) rates (%) in EU27 (Q3 of 2008, 2010 and 2012).

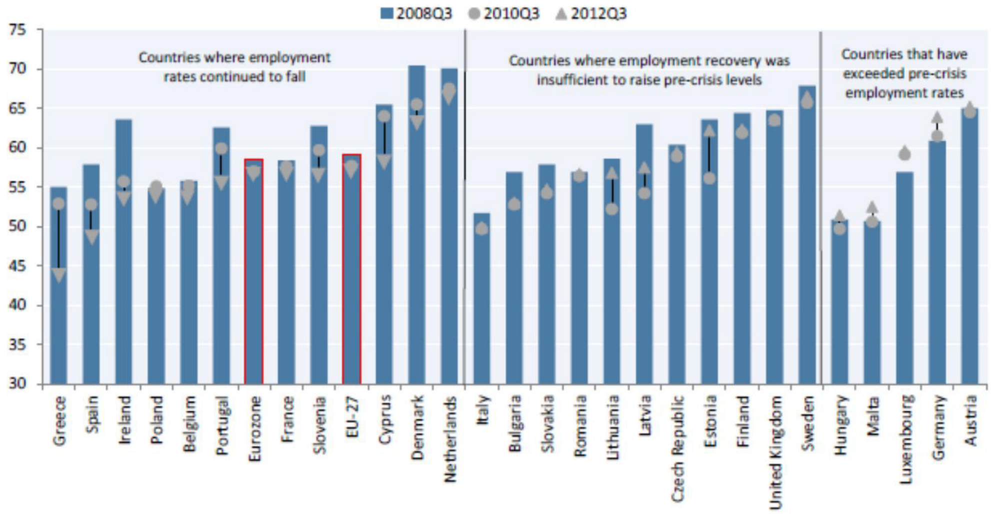
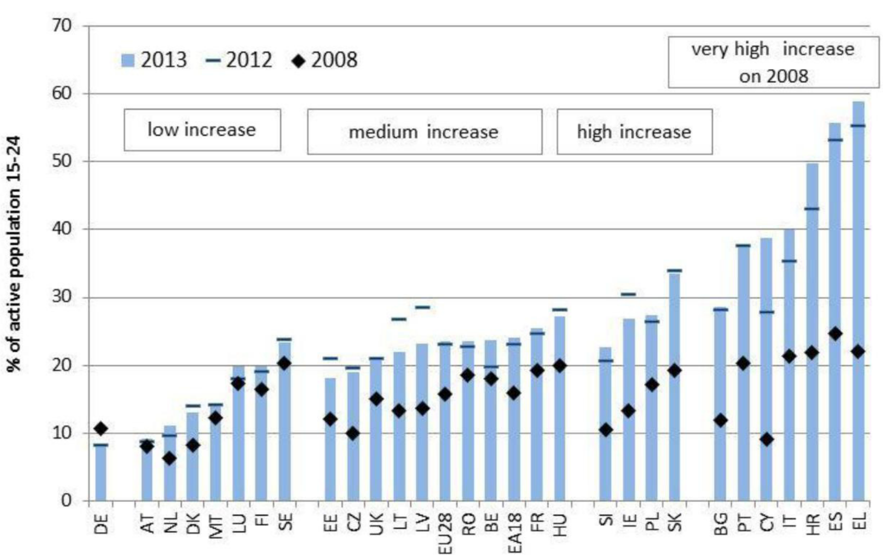
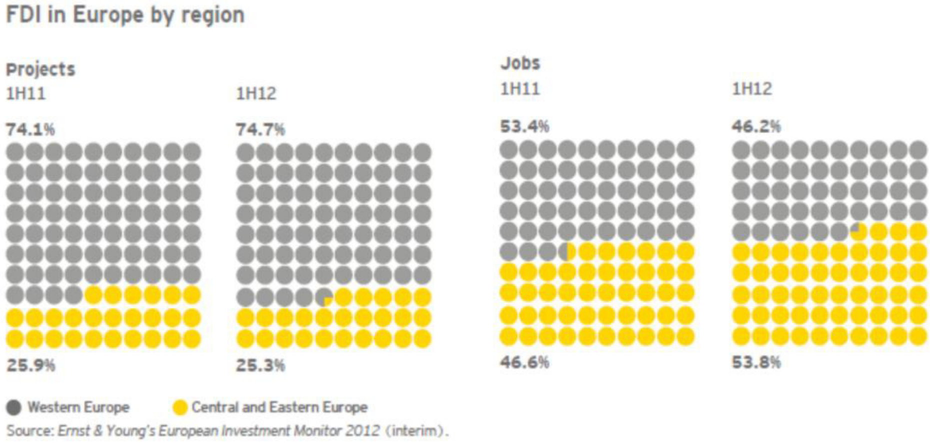


Figure 2. Youth unemployment (15-24y) rates (% of labour force) in EU27 (2008, 2012, 2013).



As for the level of attractiveness of European regions to FDI and ensuing job creation, according to data for 2011 and 2012 (Figure 3) it is the core economies of Western Europe that attract more investment projects (74.1% in 2011 and 74.7% in 2012) – rather than the economies of Central and Eastern European periphery (25.9% and 25.3% respectively). In terms of jobs created by FDI projects, these are almost equally shared among the core and peripheral regions of Europe; while an increase is recorded in the CE region in 2012 – partially compensating job losses through restructuring and supply chain squeeze across many industries in Europe (Ernst & Young, 2012).

Figure 3. FDI projects and Jobs across Europe (2011, 2012).



4. Labor market reforms and employment recovery

4.1. Greece

The IMF/EU program applied to Greece in 2010 (and then in 2012) was followed by others, implemented in Ireland in 2010 and Portugal in 2011 (all, peripheral Eurozone economies). The immediate debt reduction was estimated to reach €26bn, i.e. 12% of the Greek GDP. But as the underlying structural problems of the peripheral Greek economy were not actually addressed, the debt problems have only been postponed (Becker, 2011). The austerity measures contained in the program for Greece (Ireland and Portugal as well) particularly focused on wage reductions, public expenditure cuts and flexibilization of wage agreements.

Flexible labour - in several atypical employment forms (mainly self-employment, temporary, and family help) – has been inherently extensive in the Greek labor market of fragmented social security and poor welfare. Labor arrangements have had for long a degree of flexibility higher than the EU average - especially in terms of job security, working time and social benefits. Despite existing rigidities, flexibilization has been accelerated since the late 1990s and eventually reached a peak after the crisis, as the IMF/EC/ECB memoranda induced measures for ‘less rigidity’: mainly targeting severance payments, dismissals restrictions, permanent employment contracts, etc.

The implemented structural and legislative reforms have so far reduced real wage, but have not hampered rising unemployment nor boosted employment. On the contrary, the deregulation of labor relations has abolished collective wages agreements and deprived employees from elementary job protection rights. Both typical and atypical employment has decreased, while unemployment has fast risen to over 25% and exacerbated poverty. The low unemployment compensation rate, the absence of safety net after the insurance benefit runs out and the very short period of benefit entitlement for young people, unemployed women and first-time job seekers, are elements of the Greek social security system which don’t justify the EU reasoning that ‘the detachment from welfare benefits will trigger labor market demand’. The structural weaknesses of the Greek labor market - such as segmentation (i.e. unequal working conditions and opportunities for the labor force) and low levels of labor mobility, along with poor social security regulation - have been aggravated under these conditions. Pre-existing and widely-spread atypical employment forms (temporary, quasi self-employment, family help) have contracted, while new precarious forms have emerged (part-time, etc.) (Gialis and Tsampra, 2015).

In a recent paper, Gavroglou (2012) documents, with data from Eurostat’s Labor Cost Index, the evolution of hourly labor costs in Greece before and after the IMF/EU memorandum and the implementation of austerity policies. According to the analysis, between q1 of 2010 and q3 of 2011 total labor costs in the economy decreased by 14.3%

in nominal terms. Non-wage labor costs tended to decrease faster than total wage costs in almost all sectors. Compared to most other countries, total labor costs in Greece increased at a significantly faster rate during the previous decade. Between q1 of 2000 and 2010 nominal labor costs increased by 54.1% in Greece - against an increase of 28.7% in Portugal and 18.6% in Germany. Nevertheless, labor costs in Portugal remained stable and increased in Germany by 2.8%, when they fell by 14.3% in Greece. This policy was justified by the need for reforming some key sectors of the Greek economy and society. Obviously, most of the sectors affected by the austerity measures needed structural reform: improved transparency, a defined set of principles and rules for fiscal policy, etc. However, most of the reforms aimed at diminishing the welfare state and limiting social rights, while breaching multiple provisions of the ILO conventions. The change of the wage relation is at the very heart of all IMF programs. In this way, a partial shift of the wage relation to European level has been implemented: while until the crisis the wage relation had been the only structural form still mainly organized at the level of the nation state, this has changed during the crisis. Wage policies and social spending, being part of the wage relation, are now regulated to an important extent at EU level for the peripheral countries in and out of the Eurozone (Becker and Jäger, 2011).

4.2. Romania

Romania has had several IMF borrowing agreements since the 1980s and functioned without a Fund loan for 3 years until 2009, when the country joined other SEE countries for emergency aid from the IMF. The rescue package includes €5bn from the EU's bail-out fund, project aid from the World Bank and the European Bank for Reconstruction and Development. In order to receive the IMF loans, Romania agreed to austere conditions concerning both performance criteria and structural benchmarks (Constantin, Goschin, Danciu, 2011): public wage bill was to be reduced from 9% of GDP in 2009 to 7% of GDP by 2015; public sector wages were cut by 25% starting from July 2010, while pensions were frozen. Until the financial crisis broke in, the Romanian labor market had performed relatively well. Annual unemployment rate had declined to 4.1% in 2007 and 4.4% in 2008, supported by high rates of GDP growth over the years 2000-2008 and a decrease in the labor force owing to substantial out-migration.

The main problems in the labor market prior to the crisis were: low employment rates (from 61% in 2000, to 59% in 2008 and almost recovered to 60.1% in 2010); persisting long term unemployment; young people unemployment; extended employment in the underground economy; high immigration (over two million Romanians working abroad); and self-employment in subsistence agriculture. The scaling down of production capacities amid the economic crisis led to severe labor market adjustments: massive layoffs in industry and construction; and significant unemployment increase (which reached a rate of 7.8 % in 2009, but decreased to 6.87% in the end of 2010). Growing unemployment has deepened social inequalities and triggered re-migration (from big cities to towns and villages and also, migrants return from abroad). (Constantin, Goschin, Danciu, 2011)

Labour market adjustments were initially made by the private sector. The new Labour Code passed in March 2011, despite disapproval by the trade unions, employers' associations and the parliamentary opposition. The new law regulated relations in the labour market, allowing easier termination of employment, as well as the use of fixed-term employment contracts and temporary work. Another effect of the new law was a limitation on the immunity granted to former trade union leaders; the elimination of national collective negotiations and collective agreements; the restructuring of public sector employment (by terminating 78,700 jobs; and cutting wages by 25%) (Stoiciu, 2012). Another significant regulatory change introduced in 2011 concerned the reform of the social security system, as it intended to diminish the 'extensive' welfare state and 'encourage employment' by reducing welfare payments. The main changes enacted by the new law consisted of stricter tests for resources, defining the level of welfare benefits by the social reference indicator (instead of the minimum wage, as before) and transferring the financial burden to the local government authorities by creating the social security fund, 30% of which was made up of money granted from the state budget and 70% of local budget. The result was the widening of the gap between the poorer and richer areas of Romania.

Despite the necessity for reforms, many measures in the social field were based on the assumption that the country's welfare state was oversized and that social expenditure was responsible for the economic crisis. However, according to Eurostat, Romania's social welfare costs do not exceed 15% of GDP - one of the lowest levels in the EU. Yet, it is difficult to accurately quantify the effects of the austerity measures and structural reforms on the

Romanian economy. After two years of negative values, in 2011 domestic demand increased by 3.2% and the economy grew by 2.5%. Nevertheless, the labor market is still negatively affected by the crisis: instability and poverty risk associated with temporary and part-time employment have grown (Stoiciu, 2012). In mid-2012 a new Romanian government, supported by all trade unions and most employer associations, to indemnify the collapse of collective bargaining. But instead of supporting the effort to comply Romanian labor legislation with international conventions (ILO Convention 98), the IMF and the EC recommended to the government not to proceed with modifications – leaving no option for mitigating the impact of the crisis on the labor force.

4.3. Bulgaria

Bulgaria's last arrangement with the IMF ended in 2007, but until then the country had lending agreements with the Fund since the early 1990s. Throughout the 2000s the IMF urged the Bulgarian government to implement further labor market deregulation measures, despite acknowledging its adequate liberalization early in the transition period. Recent regulatory reforms concerned: easing restrictions on dismissals, increasing working time flexibility, and eliminating seniority bonuses. The National Reform Program (NRP) also induced public administration and regulatory changes to: down-size staff in public administration; reduce the cost of starting a business from almost 10% to 0% of per capita income; increase productivity and employability, by matching educational skills with employers' needs; eliminate impediments to FDI (as the role of Trade Unions, etc.); reduce institutional barriers, including reliability of contract enforcement

But, GDP and incomes in Bulgaria plunged in 2009; the ensuing recession resulted to massive job losses, which largely erased any previous gains: unemployment rose sharply (by 5.5%), especially for the young (to 26%) and the lower skilled; long-term unemployment reached 6.3% of the labor force; employment fell by 12% until 2011: 133,000 jobs per year were lost (compared to 100,000 created during the boom); labor productivity gains (5.3%) resulted from firms' payroll cuts and at the expense of jobs. By the end of the 2000s, unemployment exceeded 11% and Bulgaria had the lowest average wage and minimum wage among all EU27 member-countries (as in the beginning of the 2000s). Until 2007, productivity exceeded wage increases, leading to a decline in labor's share of national income. This was perceived by IMF executives as 'boosting the competitiveness of the Bulgarian economy'; it however increased income inequality. Growth, incomes and jobs creation have not yet recovered. The IMF's support for labor market deregulation during the 2000s, in an already relatively flexible labor market, as well as the recent further restrictions on pension benefits, merely accelerate the out-migration of the country's labor force to higher-wage EU countries.

5. Conclusions

Employment and security are currently being targeted by European policy makers seeking solutions to persistently high levels of unemployment and weak economic growth. Austerity measures and respective structural reforms have so far achieved the deregulation of the economy, the labor market and the welfare state, the deepening of the crisis and the widening of inequality between the EU core and its periphery. The Eurozone crisis has hit the Balkan countries of the EU 'super-periphery' extremely hard, with record falls in GDP growth rates compared to the rest of Europe, combined with extremely high and increasing unemployment levels. Moreover, the prospects are that their economic performance will further deteriorate.

We conclude that different national/regional labor markets shift towards diverse trajectories of flexible labor and atypical employment practices, within a context of decline and devaluation of all employment forms. As the extensive casualization of employment is escalating, the internal divisions between different segments of employees within the labor markets are redefined: at the expense of prime workers (typical employment). The pre-established institutional context is of great importance for the pro-austerity interventions outcomes in the labor market: i.e. the low security of the Greek labor market, the low employment and high out-migration in Romania and Bulgaria, etc.

Increased insecurity is evidenced in low employment opportunities, shrinking income shares and wages, accompanied by unfavorable working conditions. Structural weaknesses of the labor market - i.e. segmentation and unequal opportunities and rights for privileged groups of employees, poor and uneven social security rights - do not form an appropriate context for *flexicurity* policies to improve the situation. Under recession, the European geography of labor has become more uneven on the national and the regional level, through low-road flexibilization. Evidently, labor market deregulation is unlikely to lead to a period of renewed employment growths. The role of employment security is important in mitigating job losses during the economic crisis, although it has have not prevented subsequent unemployment in the most distressed economies. On the other hand, labor market deregulation processes pushed by neo-mercantilist countries have so far prevailed in the EU; while, moderate alternative policies are marginalized. In fact, the programs imposed by the IMF/EC are institutionalized throughout Europe, despite their failure.

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